ELEVATIONS
CREDIT UNION

March 9, 2010

Ms. Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comment on National Credit Union Association ("NCUA") Proposed Regulation 704

Ms. Rupp,

Elevations Credit Union ("Elevations") appreciates the opportunity to comment on the National Credit Union Administration's proposed Regulation 704. Elevations is headquartered in Boulder, Colorado, serves over 80,000 members and reported $937 million in assets as of December 31, 2009.

Developing an effective resolution to the corporate credit union crisis is critical to the ongoing viability of the credit union industry. We commend the NCUA for the significant amount of time and consideration it has devoted in developing the proposed regulation. At the same time, we note the proposal is conspicuously silent regarding the anticipated treatment of the legacy assets with huge unrealized losses. **Our comments assume the legacy assets are removed from corporate credit union balance sheets in a manner that is not detrimental to their ongoing financial operations.** We consider this as the only solution that has the possibility of leading to a viable corporate credit union business model going forward.

We believe the proposal contains many steps which are necessary and appropriate for the future regulation of corporate credit unions, not the least of which is a risk based approach to capital. We believe such an approach adds significant value, when coupled with the ability to raise secondary capital.

That said, we believe the proposal continues to contain fatal flaws which will prevent the creation of a sustainable business model for corporate credit unions. The simultaneous implementation of higher capital requirements and arbitrary reductions in individual risk characteristics will result in a situation where corporate credit unions will be unable to generate and attract new capital, whether from natural credit unions or sources of secondary capital.

Risk Management

We believe the focus of the proposal should not be on the avoidance or arbitrary elimination of selected risks but rather on the more active management of enterprise risks. We believe risks should be measured and managed on a holistic rather than piecemeal basis. For example, the proposal places a two year weighted average life limit on a corporate credit union's assets. The selection of two years appears arbitrary and excludes consideration of the length and nature of the underlying funding structure. A two year average life may be inappropriately long for one corporate union, and inappropriately short for another – dependent upon the underlying funding structure. **We advocate that the two year average life restriction on assets be removed.** We believe it's more appropriate to focus on the exposure of net economic value to changes in interest rates, rather than place an arbitrary limit on one side of the balance sheet.

While on the topic of interest rate risk management, we encourage the NCUA to consider adoption of a model to measure the interest rate risk for <u>all</u> of the institutions it regulates, similar to the approach taken by the Office of Thrift Supervision in regulating its institutions. Such an approach would significantly enhance the NCUA's ability to evaluate interest rate risk consistently across the industry. And providing each of the regulated credit unions with the modeled results on a quarterly basis would enhance their ability to validate the results of the interest rate risk measurements on which they rely upon.

Regarding the viability of the corporate credit union business model, we note that the sample modeling incorporated within the proposal implies corporate credit unions can build capital under the proposed restrictions. However, that conclusion is completely dependent upon the <u>invalid</u> assumption that corporate credit unions can count on the ability to invest significant portions of their balance sheet in AAA-rated student loans at 200 basis point spreads. **After correcting this assumption, the model results indicate the complete opposite – the corporate credit union cannot generate sufficient capital given the proposed restrictions. If that's correct, it will also be unable to attract external sources of capital.**

Corporate Governance

We believe the following two aspects of corporate governance need to be addressed:

- **Remove the eligibility requirement that directors must be either a CEO, CFO or COO:** We believe it's important to have diversity on the boards. Like positions tend to be filled with those of like mindsets, which can result in decision-making which evidences a herd mentality (similar to that which drove so many corporate credit unions to invest in similar investments). We believe that the boards would be more effective if they included representatives from other disciplines, and also from outside of the industry.
- **Extend the term limit for directors from six years to nine years:** We strongly support the implementation of term limits for directors, but consider a six year limit too restrictive given the sophisticated nature of the environment.

Miscellaneous

- **We believe the proposed limit upon a corporate credit union's ability to pay a market based redemption price on early withdrawals should be removed.** There is no compelling need to make a change to the existing business practice of paying a market based premium. This aspect of corporate credit union activity is not broken, and it does not need "fixed".

Thank you again for the opportunity to comment on this proposed regulation,

Michael Calcote

Michael Calcote
Chief Financial Officer